

**BROWN CITY COMMUNITY SCHOOLS**  
**BROWN CITY, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary and  
additional information)  
June 30, 2006

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August 18, 2006

## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Brown City Community Schools  
Brown City, Michigan 48416

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Brown City Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006, on our consideration of Brown City Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages *i* through *ix* and page 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Board of Education  
Brown City Community Schools  
August 18, 2006

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brown City Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

BROWN CITY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Brown City Community Schools has implemented Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. Our discussion and analysis of Brown City Community Schools' financial performance, a GASB 34 requirement, provides an overview of the School District's financial activities for the fiscal year ended June 30, 2006.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. .

**FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The District's *net assets* – the difference between assets and liabilities, as reported in the Statement of Net Assets, is one way to measure the School District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets, as reported in the Statement of Activities, is one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to its students, not to generate profits as commercial entities do. Many other non-financial factors, such as the quality of the education provided and the safety of the schools, must also be considered when assessing the *overall health* of the School District.

The School District's net assets totaled \$ 1,464,091 and \$ 1,276,046 at June 30, 2006 and 2005, respectfully. Of these amounts, \$658,543 and \$ 325,629 were restricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the School District's ability to use those net assets for day-to-day operations. The following is a summary of the District's net assets at June 30, 2006 and 2005:

**BROWN CITY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Current assets	\$4,322,670	\$ 4,034,561
Capital assets net of depreciation	<u>13,489,830</u>	<u>13,918,592</u>
Total assets	<u>\$ 17,812,500</u>	<u>\$ 17,953,153</u>
<b>Liabilities</b>		
Current liabilities	\$ 2,575,528	\$ 2,558,745
Long-term liabilities	<u>13,772,881</u>	<u>14,118,362</u>
Total liabilities	<u>16,348,409</u>	<u>16,677,107</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(467,037)	(518,354)
Restricted for debt service	658,543	325,629
Unrestricted	<u>1,272,585</u>	<u>1,468,771</u>
Total net assets	<u>1,464,091</u>	<u>1,276,046</u>
Total liabilities and net assets	<u>\$17,812,500</u>	<u>\$17,953,153</u>

The \$ 1,272,585 in unrestricted net assets of governmental activities represents District funds that have not been committed contractually or for debt obligations and are available for future use.

Total net assets increased \$ 188,045 in 2005-06. The major components of the increase in net fixed assets are as follows:

- Capital acquisitions

Capital outlay for the year ended June 30, 2006 totaled \$ 59,288

- Depreciation expense

The provisions of GASB 34 require districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principals,

**BROWN CITY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

accordance with generally accepted accounting principals, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2006 the net increase in accumulated depreciation was \$ 488,050.

- Debt repayment

Repayment of debt decreases the District's long-term principal obligations and, as a result, the net assets of the district increase. The District repaid \$ 461,101 of long-term debt in the current fiscal year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-wide results of operations for the year ended June 30, 2006 is as follows:

	<b>2006</b>	<b>2005</b>
General revenue		
Property taxes levied for general operations	\$ 420,762	\$ 401,486
State of Michigan aid, unrestricted	7,907,275	7,599,495
Property Taxes levied for debt service	746,144	706,102
Other – federal, state and local	<u>159,963</u>	<u>147,330</u>
Total general revenue	9,234,144	8,854,413
Program revenue		
Charges for services – local	361,474	294,860
Operating grants – federal and state	<u>642,123</u>	<u>576,233</u>
Total revenues	10,237,741	9,725,506
Expenses		
Instruction	4,815,995	4,430,357
Support services	3,354,760	3,369,671
Community services	39,493	40,116
Food services	474,753	452,788
Fees		
Athletics	205,948	201,250
Amortization	14,828	
Interest on long-term debt	655,869	650,766

**BROWN CITY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Depreciation (unallocated)	488,050	502,392
Total expenses	10,049,696	9,647,340
Increase in net assets	188,045	78,166
Net assets – July 1	1,276,046	1,197,880
Net assets – June 30	1,464,091	1,276,046

**GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS**

The financial condition of the governmental funds remains steady as indicated by the combined fund balance of \$ 2,370,513 in 2005-06, compared to \$2,051,839 in 2004-05.

In the General Fund, our principal operating fund, the fund balance increased \$ 323,412. Our Special Revenue Funds experienced a good year, showing a net \$16,465 increase in fund balance.

As budgeted, the Debt Service Fund experienced a decrease in fund balance of \$21,203. For the 2005-2006 fiscal year, the Debt Service Fund millage rate remained the same at 5.9980 mills. Millage rates are determined annually to ensure the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund balances are reserved since they can only be used to pay debt service obligations. During the 2005-06 fiscal year, the Board of Education, in an effort to save the taxpayers of the school district, refunded \$7,890,000 of the original bonds for a reduction in debt service payments of \$607,651.

**MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

The School District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments, actual State Aid per pupil and staffing changes are known. Currently, the most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2006, the School District amended the budget of this major governmental fund two times.

***General Fund***

In the general fund, the actual revenue was \$8.886 million. This is above the original budget estimate of \$ 8.479 million and slightly above the final amended budgeted amount of \$8.892 million, a variance of 0.05%.

The actual expenditures of the general fund were \$7.899 million. This is below the original budget estimate of \$8.962 million and the final amended budgeted amount of



**BROWN CITY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

\$8.017 million. The variances between the actual General Fund expenditures and the original and final expenditure budgets include the following:

- a reduction in discretionary spending resulting from the spending reductions implemented during the year when there was a concern that the State of Michigan would not give the school district increase in per pupil funding for the coming school year.

General Fund revenues totaled \$ 8,886,802 million and total expenditures \$ 7,899,701 million for the year. The fund balance was \$1,990,956 million dollars at June 30, 2006.

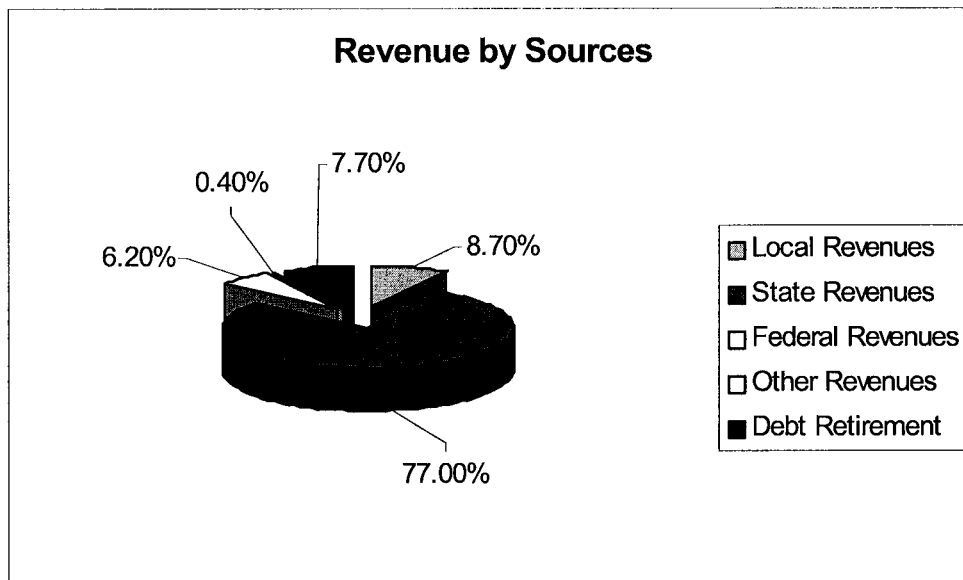
**GOVERNMENTAL FUND EXPENDITURES**

The following chart illustrates that general fund comprises 84% of all the expenditures within the governmental funds of the School District. As of June 30, 2006 expenditures totaled \$ 9.432 million for all District programs. The ending fund balance for all funds was equal to \$2,370,513.

	June 30, 2006	% of TOTAL
General Fund	\$ 7,899,701	84.00%
Special Revenue Fund	680,701	7.00%
Debt Retirement Fund	851,818	9.00%
Total	\$ 9,432,220	100.00%

**TOTAL REVENUES**

Revenues for all governmental funds totaled \$ 10.239 million. The following graph illustrates the District revenues by source as a percentage of total revenue:



**BROWN CITY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

***Unrestricted State Aid***

The district is predominately funded by State Aid. The State of Michigan increased the per pupil funding for the 2005-06 school year to \$6,875, a \$175 per pupil increase over the 2004-05 allocation of \$6,700. State Aid membership was 1,150 and 1,144 in 2005-06 and 2004-05, respectively.

***Property Taxes***

The District was only able to levy 17.2473 mills, of the originally voted 18.0 mills, of property taxes on all Non-Homestead property located within the district for General Fund operations during the 2005-06 school year. This millage rate remained the same as that which the district levied in the 2004-05 school year. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value. The 2005-06 Non-Homestead property tax levy totaled approximately \$ 448,488 and collections were \$ 422,910.

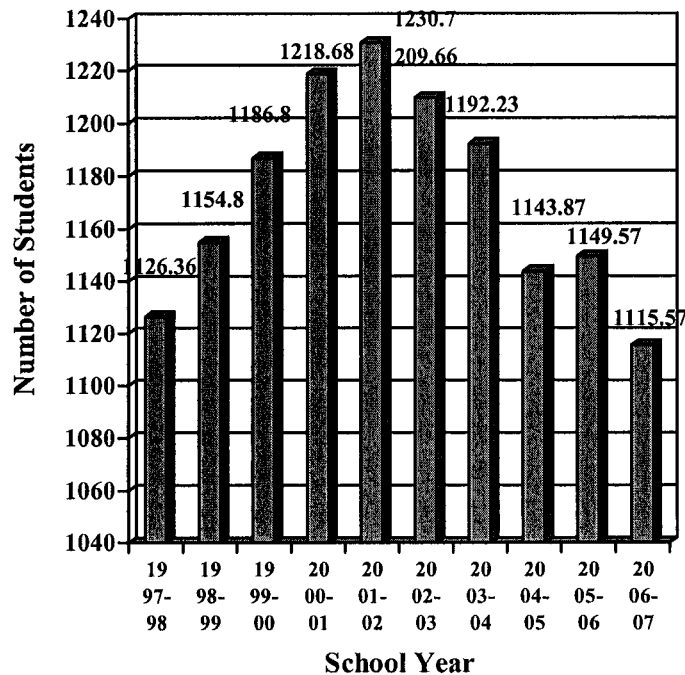
The District levies 5.9980 mills of property taxes on all classes of property located within the district for bonded debt retirement. This levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations. The total amount levied for debt retirement in the 2005-06 year was \$ 746,144.

**ENROLLMENT**

The enrollment of Brown City Community Schools totaled 1,150 students in 2005-06. This is an increase in enrollment of 6 students from the 2004-05 year. The School District is located in Sanilac, Lapeer and St. Clair Counties and is considered a rural community. The School District's enrollment includes students K-12 and Alternative High School students, located in learning centers in Brown City, Croswell and the Sanilac County Career Center.

**BROWN CITY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Enrollment over the last nine years, plus a 2006-07 projection is illustrated as follows:



Enrollment is important to the financial health of the School District because State funding is based on a per-pupil formula. For the fiscal year ended June 30, 2006, the gross per-pupil allowance was \$6875.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### ***Capital Assets***

At the end of fiscal year 2006, the School District had \$17.8 million invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$ 4.3 million has been depreciated. Net book value totals \$13.5 million. The district's buildings range in years of construction from 1954 to 2001. The majority of the buildings were either constructed or remodeled during the 2001 Bond Issue. The district is committed to the timely repairs and maintenance of its facilities. Computer purchases are under the District's capitalization threshold of \$5,000 and are expensed accordingly.

BROWN CITY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental <u>Activities</u>
Land and Improvements	\$ 877,948
Buildings and Additions	14,586,307
Machinery and Equipment	1,484,928
Vehicles & Buses	847,105
 Total	 <u>\$ 17,796,288</u>

***Debt***

**OUTSTANDING DEBT AT YEAR-END**

At June 30, 2006, the School District had \$14.48 million in bonds outstanding as compared to \$ 14.37 million at the end of the previous year. The bonds outstanding consisted of the following:

Limited Tax General Obligation Bond	\$ 1,260,000
Durant Issue	\$ 35,845
Building and Site Bonds	\$ 13,180,000

It needs to be noted the Durant Issue is a legal obligation of the School District, but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payment. If the legislature fails to appropriate for these bonds, the School District is under no obligation for payment. The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating.

The School District has a zero balance (\$0.00) on installment contracts payable at June 30, 2006. The balance at the end of the previous year was \$66,073. Installment contracts payable at June 30, 2006 consisted of the following:

Bus Contract Payable	\$ 0
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State statutes limit the amount of debt schools can issue. The School District's outstanding voted bond debt of \$12.6 million and installment contract debt of \$0.00 is

BROWN CITY COMMUNITY SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

under the statutorily imposed limits.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The School District's revenue is heavily dependent on enrollment, State funding, and thus, the health of the State's School Aid Fund. The State periodically holds revenue consensus conferences to estimate its revenues. Based on the results of these conferences, the State determines whether they have sufficient funds to meet the \$7,085 per student allocation that they have indicated that they will fund for the 2006-07 school year. When the 2006-07 budget was formulated it was believed that the State would fund at a level of \$7,100.

The State's current blending formula (25% February 2005 count and 75% September 2005 count) is the same formula that was used in the 2005-06 school year. The district's blended count for the 2006-07 school year is projected to be down 34.00 from the 2005-06 school year.

In addition, the district has an unsettled labor contract with the one of their labor unions and with other non-union employees.

The 2005-06 budget, that was originally adopted, included an excess of expenditures over revenue of \$474,387, which would have reduced the District's fund equity. During the school year the District reduced elective spending as much as possible, to help reduce that projected excess in expenditures over revenue. Even if the State revenues improve, future budget reductions may be required to handle the increasing costs, such as health insurance, State mandated retirement contributions and the ever increasing costs of fuel and the utilities.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This report is designed to give an overview of the financial conditions of Brown City Community Schools. If you should desire additional detailed financial program audits, they can be obtained by contacting the following person:

Janet E. Stimson, Business Manager  
Brown City Community Schools  
4349 Second St. P.O. Box 160, Brown City, MI 48416-0160  
Telephone – 810-346-2781 Fax – 810-346-3762  
Email – jstimson@bc.k12.mi.us

## **BASIC FINANCIAL STATEMENTS**

**BROWN CITY COMMUNITY SCHOOLS**  
**STATEMENT OF NET ASSETS**  
June 30, 2006

	<b>ASSETS</b>	<b>GOVERNMENTAL ACTIVITIES</b>
CURRENT ASSETS:		
Cash		\$ 2,447,287
Investments		354,117
Accounts receivable		19,595
Property taxes receivable		13,442
Due from other governmental units		1,455,590
Inventory		4,739
Prepaid expenses		27,900
TOTAL CURRENT ASSETS		<u>4,322,670</u>
NONCURRENT ASSETS:		
Capital assets		17,796,288
Less accumulated depreciation		(4,306,458)
TOTAL NONCURRENT ASSETS		<u>13,489,830</u>
<b>TOTAL ASSETS</b>		<u><b>\$ 17,812,500</b></u>
	<b>LIABILITIES AND NET ASSETS</b>	
CURRENT LIABILITIES:		
Accounts payable		\$ 60,755
Notes payable		1,500,000
Accrued interest		125,612
Accrued payroll taxes		115,377
Salaries payable		219,233
Current portion of long term debt		454,434
Current portion of compensated absences/buyouts		100,117
TOTAL CURRENT LIABILITIES		<u>2,575,528</u>
NONCURRENT LIABILITIES:		
Noncurrent portion of long term debt		13,502,433
Noncurrent portion of compensated absences/buyouts		270,448
TOTAL NONCURRENT LIABILITIES		<u>13,772,881</u>
NET ASSETS:		
Invested in capital assets, net of related debt		(467,037)
Restricted for debt service		658,543
Unrestricted		1,272,585
TOTAL NET ASSETS		<u>1,464,091</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><b>\$ 17,812,500</b></u>

The accompanying notes are an integral part of the financial statements.

# BROWN CITY COMMUNITY SCHOOLS

## STATEMENT OF ACTIVITIES

June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 4,815,995	\$ 64,537	\$ 276,392	\$ (4,475,065)
Support services	3,354,760		118,454	(3,236,307)
Community services	39,493			(39,493)
Food services	474,753	225,580	238,323	(10,850)
Athletics	205,948	71,357		(134,591)
Amortization	14,828			(14,828)
Interest on long-term debt	655,869		8,954	(646,915)
Unallocated depreciation	488,050			(488,050)
Total governmental activities	<u>\$ 10,049,696</u>	<u>\$ 361,474</u>	<u>\$ 642,123</u>	<u>(9,046,099)</u>
General revenues:				
Property taxes, levied for general purposes				420,762
Property taxes, levied for debt service				746,144
State of Michigan school aid unrestricted				7,907,275
Investment revenue				85,210
Transfers from other districts				5,316
Sale of school property				270
Miscellaneous				69,167
Total general revenue				<u>9,234,144</u>
Change in net assets				188,045
Net assets, beginning of year				1,276,046
Net assets, end of year				<u>\$ 1,464,091</u>

The accompanying notes are an integral part of the financial statements.



**BROWN CITY COMMUNITY SCHOOLS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2006

	<b>GENERAL FUND</b>	<b>2005/2001 DEBT RETIREMENT FUND</b>	<b>OTHER NONMAJOR GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b><u>ASSETS</u></b>				
CURRENT ASSETS:				
Cash	\$ 2,073,363	\$ 304,426	\$ 69,498	\$ 2,447,287
Investments	354,117			354,117
Accounts receivable	19,595		-	19,595
Due from other governmental units	1,452,226		3,364	1,455,590
Inventory			4,739	4,739
Prepaid expenses	27,900			27,900
<b>TOTAL ASSETS</b>	<b><u>\$ 3,927,201</u></b>	<b><u>\$ 304,426</u></b>	<b><u>\$ 77,601</u></b>	<b><u>\$ 4,309,228</u></b>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>				
LIABILITIES:				
Accounts payable	\$ 58,285		\$ 2,470	\$ 60,755
Notes payable	1,500,000			1,500,000
Interest payable	43,350			43,350
Accrued payroll taxes	115,377			115,377
Salaries payable	219,233		-	219,233
<b>TOTAL LIABILITIES</b>	<b><u>1,936,245</u></b>	<b><u>-</u></b>	<b><u>2,470</u></b>	<b><u>1,938,715</u></b>
FUND BALANCE:				
Unreserved				
Designated for compensated absences/buyouts	370,565			370,565
Designated for QZAB	354,117			354,117
Designated for insurance	27,900			27,900
Designated for building improvements	20,475			20,475
Undesignated	1,217,899		75,131	1,293,030
Reserved for debt service		\$ 304,426		304,426
<b>TOTAL FUND BALANCE</b>	<b><u>1,990,956</u></b>	<b><u>304,426</u></b>	<b><u>75,131</u></b>	<b><u>2,370,513</u></b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b><u>\$ 3,927,201</u></b>	<b><u>\$ 304,426</u></b>	<b><u>\$ 77,601</u></b>	<b><u>\$ 4,309,228</u></b>

The accompanying notes are an integral part of the financial statements.

**BROWN CITY COMMUNITY SCHOOLS**  
Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Assets  
June 30, 2006

**Total fund balances--governmental funds** \$ 2,370,513

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is:	17,796,288
Accumulated depreciation is:	(4,306,458)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable:	(14,475,845)
Compensated absences/buyouts	(370,565)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid:	(82,262)
Deferred bond premium	(30,373)
Deferred amount on bond refunding	461,999
Deferred issuance costs for bond refunding	74,330
Deferred bond discount	27,850
Amortization bond premium	844
Amortization amount on bond refunding	(12,833)
Amortization deferred issuance costs	(2,065)
Amortization bond discount	(774)

Balance of taxes receivable at 6/30/06 less allowance for doubtful accounts, expected to be collected after September 1, 2006

13,442

**Net Assets of Governmental Activities**

\$ 1,464,091

The accompanying notes are an integral part of the financial statements.

**BROWN CITY COMMUNITY SCHOOLS**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
June 30, 2006

	<b>GENERAL FUND</b>	<b>2005/2001 DEBT RETIREMENT FUND</b>	<b>OTHER NONMAJOR GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
REVENUES:				
Local sources	\$ 591,715	\$ 760,439	\$ 296,937	\$ 1,649,091
State sources	7,858,841	-	57,388	7,916,229
Federal sources	394,846		238,323	633,169
Other transactions:				
Transfers from other districts	5,316			5,316
Sale of school property	270			270
Refund of prior years expenditures	13,187			13,187
Insurance reimbursement	3,050			3,050
Miscellaneous	19,577			19,577
<b>TOTAL REVENUES</b>	<b>8,886,802</b>	<b>760,439</b>	<b>592,648</b>	<b>10,239,889</b>
EXPENDITURES:				
Instruction	4,554,427			4,554,427
Supporting services	3,305,781			3,305,781
Community services	39,493			39,493
School activities			680,701	680,701
Debt service:				
Principal retirement		205,000	20,028	225,028
Interest and fiscal charges		617,836	8,954	626,790
<b>TOTAL EXPENDITURES</b>	<b>7,899,701</b>	<b>822,836</b>	<b>709,683</b>	<b>9,432,220</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<b>987,101</b>	<b>(62,397)</b>	<b>(117,035)</b>	<b>807,669</b>
OTHER FINANCING SOURCES (USES):				
Bond refunding activity		41,194		41,194
Payment on loans	(311,254)			(311,254)
Site services	(12,005)			(12,005)
Payments to other schools	(206,930)			(206,930)
Transfers from other funds	5,000		138,500	143,500
Transfers to other funds	(138,500)		(5,000)	(143,500)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(663,689)</b>	<b>41,194</b>	<b>133,500</b>	<b>(488,995)</b>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<b>323,412</b>	<b>(21,203)</b>	<b>16,465</b>	<b>318,674</b>
FUND BALANCE - BEGINNING OF YEAR	1,667,544	325,629	58,666	2,051,839
FUND BALANCE - END OF YEAR	<u>\$ 1,990,956</u>	<u>\$ 304,426</u>	<u>\$ 75,131</u>	<u>\$ 2,370,513</u>

The accompanying notes are an integral part of the financial statements.

**BROWN CITY COMMUNITY SCHOOLS**  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
June 30, 2006

**Total net change in fund balances--governmental funds** **\$ 318,674**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(488,050)
Capital outlay	59,288

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	116,485
Accrued interest payable at the end of the year	(82,262)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

Principal payments	8,426,101
Proceeds of bonds	(8,465,000)
Premium on bonds	(30,373)
Discount on bond	27,850
Deferred issuance costs	74,330
Deferred amount on bond refunding	461,999
Amortization of premium on bond	844
Amortization of discount on bond	(774)
Amortization of deferred issuance costs	(2,065)
Amortization of deferred amount on bond refunding	(12,833)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(15,590)
Accrued revenue at the end of the year	13,442

Compensated absences/buyouts are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued absences at the beginning of the year	156,544
Accrued absences/buyouts at the end of the year	(370,565)

<b>Change in net assets of governmental activities</b>	<b>\$ 188,045</b>
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The accompanying notes are an integral part of the financial statements.

**BROWN CITY COMMUNITY SCHOOLS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
June 30, 2006

	<u><b>AGENCY FUNDS</b></u>
<u><b>ASSETS</b></u>	
CURRENT ASSETS	
Cash	\$       75,940
<b><i>TOTAL ASSETS</i></b>	<u><u><b>\$       75,940</b></u></u>
 <u><b>LIABILITIES AND FUND BALANCE</b></u>	
LIABILITIES:	
Due to other funds	
Due to student organizations	<u>\$       75,940</u>
TOTAL LIABILITIES	<u>75,940</u>
FUND BALANCE:	
<b><i>TOTAL LIABILITIES AND FUND BALANCE</i></b>	<u><u><b>\$       75,940</b></u></u>

The accompanying notes are an integral part of the financial statements.

**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The basic financial statements of the Brown City Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as described in Note 1. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**REPORTING ENTITY:**

The Brown City Community Schools (the "District") is governed by the Brown City Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued):**

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**GOVERNMENTAL FUNDS**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The 2005/2001 *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**OTHER NON-MAJOR FUNDS**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* - Durant accounts for the resources accumulated and payments made for principal and interest on long-term limited obligation debt as a result of the Durant settlement.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:**

**Accrual Method:**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (CONTINUED):**

**Modified Accrual Method (Continued):**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue:**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006 the foundation allowance was based on the pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2005 - August, 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

**ASSETS, LIABILITIES AND EQUITY:**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No.40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.



**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**ASSETS, LIABILITIES AND EQUITY (CONTINUED):**

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year.

The actual due date is September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	17.2473
Debt Service Funds - Homestead and non-homestead	5.998

4. Inventories and Prepaid Items.

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue fund consisting of expendable supplies held for consumption are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**ASSETS, LIABILITIES AND EQUITY (Continued):**

**6. Capital Assets.**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

**7. Deferred Revenues.**

The unexpended balance of various federal and/or state categorical grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance are also deferred.

**8. Compensated Absences.**

The District's policies generally provide for granting vacation and sick leave with pay. It is the policy of the District that upon the death or retirement or layoff of a teacher from the district, the Board shall pay to the teacher with a minimum of seven years of service, or his/her estate, with at least thirty sick days accumulated shall receive \$30 for each unused accumulated sick day. The maximum days accumulated will be equal to the number of teaching days per school year.

**9. Unemployment Insurance.**

The District reimburses the State of Michigan Bureau of Worker's & Unemployment Compensation (BW&UC) for the actual amount of unemployment benefits disbursed by the BW&UC on behalf of the District. Billings received for amounts paid by the BW&UC through June 30 are accrued if material.

**10. Long-term obligations.**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**ASSETS, LIABILITIES AND EQUITY (Continued):**

11. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of net current assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

12. Use of Estimates.

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - general, special revenue and debt service funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances - budget and actual (GAAP Basis) - general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30.

**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK:**

Cash and cash equivalents are held separately in the name of the district by each of the district's funds.

As of June 30, 2006, the District had the following investments.

<b>Investment Type</b>	<b>Fair value</b>	<b>(Years)</b>	<b>Rating</b>	<b>%</b>
Guaranteed Investment Contract (GIC)	\$ 354,117	0.0389	A-1+	
Total fair value	<u>\$ 354,117</u>			100.0%
Portfolio weighted average maturity		<u>0.0389</u>		

1 day maturity equals 0.0027, one year equals 1.00

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$2,685,895 of the District's bank balance of \$2,885,895 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the Note Payable Disclosed in Note 4 (QZAB Bonds).

**BROWN CITY COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For The Year Ended June 30, 2006**

**NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK (CONTINUED):**

The Investment Agreement, dated as of March 14, 2002, by and among The Bank of New York Trust Company, as the Depository on behalf of both the participating Michigan School District and the Michigan Municipal Bond Authority, and Wachovia Bank, as Provider.

The net proceeds from the sale of the School Improvement Bonds were loaned by the Authority to Michigan School Districts. Such Loans are to be repaid with annual set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 1.5% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Wachovia Bank, as guarantor of the Provider's obligations under this Investment Agreement.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$75,940	\$ 2,523,227
Investments	354,117
	<u>\$ 2,877,344</u>

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 2,447,287
Fiduciary Funds	75,940
Investments - District wide	354,117
	<u>\$ 2,877,344</u>

**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 4 - LONG-TERM DEBT:**

On December 6, 2005, the District issued refunding bonds for \$8,465,000 in general obligation bonds with an average interest rate of 3.9% to advance refund \$7,890,000 outstanding 2001 registered bonds with an average interest rate of 5.25%. As a result, the 2001 term bonds are considered defeased and the liability for those bonds has been removed from the general long-term debt group.

The District refunded the 2001 term bonds to reduce its total debt service payments over the next twenty-one years by \$607,651 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$393,833.

The District issues general obligation bonds to provide funds for the acquisition, construction, and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2006.

	Accumulated Compensated Absences/buyouts	Bonded Debt	Total
Balance, July 1, 2005	\$156,544	\$14,436,946	\$14,593,490
Additions	214,021	8,494,529	8,708,550
Deletions		(8,974,608)	(8,974,608)
Balance, June 30, 2006	370,565	13,956,867	14,327,432
Less current portion	(100,117)	(454,434)	(554,551)
Total due after one year	<u>\$270,448</u>	<u>\$13,502,433</u>	<u>\$ 13,772,881</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For The Year Ended June 30, 2006**

**NOTE 4 - LONG-TERM DEBT (CONTINUED):**

The following is a summary of the various long-term debt of the school district:

1998 Issue due in annual installments of \$70,000 to \$80,000 with interest from 4.65% to 4.80%.	\$ 155,000
1999 Issue due in annual installments of \$25,000 and \$30,000 with interest of 5.00%.	90,000
2001 Qualified Zone Academy Bonds (QZAB face amount \$1,168,097). The bonds are interest free and are repayable starting 3/14/05 in installments of \$8,097 on 3/14/05 and \$145,000 starting 3/14/06 through 3/14/13. The district is required to set aside \$97,341 beginning on 3/14/02 and each year thereafter. The sum of these amounts set aside, together with the interest earned thereon, will be sufficient to repay the aggregate principal amount of the bonds.	1,015,000
2001 general obligation bonds due in annual installments of \$70,000 to \$640,000 with interest from 3.25% to 5.50%.	4,790,000
Limited obligation (Durant) bond, due in annual installments of \$20,028 to \$4,434 through May 15, 2013, with interest of 4.76%.	35,845
2005 Bond Refunding	8,390,000
Plus: Premium on bond refunding	29,529
Less: Discount on bond refunding	(27,076)
Less: Deferred issuance costs	(72,265)
Less: Deferred amount on bond refunding	<u>(449,166)</u>
Total general obligation debt	13,956,867
Accumulated compensated absences/buyouts	<u>270,448</u>
Total long-term debt	<u><b>\$14,327,432</b></u>

Interest expense (all funds) for the year ended June 30, 2006 was \$655,869

**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 4 - LONG-TERM DEBT (CONTINUED):**

**DEBT SERVICE REQUIREMENTS:**

The annual requirements to amortize long-term debt outstanding as of June 30, 2006 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 454,434	\$ 585,032	\$ 1,039,466
2008	489,646	572,288	1,061,934
2009	439,867	558,658	998,525
2010	445,099	549,109	994,208
2011	480,342	536,016	1,016,358
2012-2016	2,631,457	2,403,781	5,035,238
2017-2021	3,240,000	1,815,479	5,055,479
2022-2026	3,125,000	1,174,266	4,299,266
2027-2031	<u>3,170,000</u>	<u>474,187</u>	<u>3,644,187</u>
	14,475,845	8,668,816	23,144,661
Premium on bond refunding	29,529		29,529
Discount on bond refunding	(27,076)		(27,076)
Deferred amount on bond refunding	(449,166)		(449,166)
Deferred Issuance Costs	(72,265)		(72,265)
Accum compensated absences/buyouts	<u>370,565</u>		<u>370,565</u>
	<u>\$14,327,432</u>	<u>\$8,668,816</u>	<u>\$22,996,248</u>

An amount of \$658,543 is available in the general and debt service funds to service the general obligation debt.

**CHANGES IN LONG-TERM DEBT:**

Following is a summary of long-term debt transactions of the district for the year ended June 30, 2006:

	<u>ACCUMULATED SICK&amp;VACATION PAY&amp;BUYOUTS</u>	<u>GENERAL OBLIGATION</u>
Long-term debt - July 1, 2005	\$156,544	\$14,436,946
Net increase in accumulated compensated absences/buyouts	214,021	
Additions:		
2005 Bond Refunding		8,465,000
Amounts paid during the year:		
1998 Issue		( 75,000)
1999 Issue		( 25,000)
2001 Issue		( 130,000)
2001 Issue refunded		(7,890,000)
2005 Issue		( 75,000)
QZAB		( 145,000)
Bus Loans		( 66,073)
Durant bonds paid		( 20,028)
Total	<u>\$370,565</u>	<u>\$14,475,845</u>



**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 5 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (CONTINUED):**

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1<sup>st</sup> on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 were 14.87% through September 2005 and 16.34% for October, 1 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributes to MPERS for the years ended June 30, 2006, 2005 and 2004 were \$767,908, \$634,814 and \$567,026, respectively, and were equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits that is the responsibility of the State of Michigan.

**Other Post-Employee Benefits:**

Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

**NOTE 6 - OPERATING LEASES:**

The School District leases a bus and equipment under operating lease agreements that expire at various dates, respectively. Lease expense amounted to \$51,555. At June 30, 2006, future lease payments under such leases are as follows:

June 30, 2007	\$40,572
June 30, 2008	\$33,810

**BROWN CITY COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For The Year Ended June 30, 2006**

**NOTE 7 - RISK MANAGEMENT:**

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

**NOTE 8 – CAPITAL ASSETS:**

A summary of changes in the District's capital assets follows:

	<u>BALANCE</u> <u>July 1, 2005</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>June 30, 2006</u>
Assets Not Being Depreciated -- Land	\$ 142,260	\$ -	\$ -	\$ 142,260
Other Capital Assets:				
Land Improvements	732,618	3,070		735,688
Building and Additions	14,586,307			14,586,307
Machinery and Equipment	1,481,410	3,518		1,484,928
Transportation Equipment	794,405	52,700		847,105
Subtotal	<u>17,594,740</u>	<u>59,288</u>	<u>-</u>	<u>17,654,028</u>
Accumulated Depreciation:				
Land Improvements	(184,396)	(33,878)		(218,274)
Building and Additions	(2,041,783)	(265,368)		(2,307,151)
Machinery and Equipment	(978,788)	(135,599)		(1,114,388)
Transportation Equipment	(613,440)	(53,205)		(666,645)
Subtotal	<u>(3,818,408)</u>	<u>(488,050)</u>	<u>-</u>	<u>(4,306,458)</u>
Net Other Capital Assets	<u>13,776,332</u>	<u>(428,762)</u>	<u>-</u>	<u>13,347,570</u>
Net Capital Assets	<u>\$13,918,592</u>	<u>\$(428,762)</u>	<u>\$ -</u>	<u>\$13,489,830</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$488,050. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**BROWN CITY COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 9- TRANSFERS:**

Transfers between funds for the year ended June 30, 2006 were as follows:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$133,000	\$ 5,000
Athletic Fund		133,000
Hot Lunch Fund	<u>5,000</u>	<u>          </u>
Total Transfers	<u>\$138,000</u>	<u>\$138,000</u>

The transfer to athletic fund from general fund was to subsidize operations. The transfer from hot lunch to general fund was to help cover hot lunch fund administrative/maintenance expenses.

**NOTE 10 – CONTINGENCIES:**

The School District is currently involved in litigation with a citizen claiming violation of the freedom of information act. The School District has a potential liability of up to \$500 plus related attorney costs. The claim is currently in appeals.

No amounts for this litigation has been reflected in the Districts financial statements.

**NOTE 11 – NOTE PAYABLE AND SUBSEQUENT EVENT:**

On July 20, 2006, a state aid note from Tri-County Bank in the amount of \$1,500,000 matured and was paid. The state aid note which was recorded as a liability at June 30, 2006 on the balance sheet had an interest rate of 2.89%.

On September 21, 2006, the District borrowed \$750,000 in a state aid note from Tri-County Bank. The state aid note bears interest at 3.98% and will mature on August 20, 2007.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**BROWN CITY COMMUNITY SCHOOLS**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>GENERAL FUND</b>			
	<b>ORIGINAL BUDGET</b>	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
<b>REVENUES</b>				
Local sources	\$ 544,223	\$ 610,023	\$ 591,715	\$ (18,308)
State sources	7,557,049	7,855,204	7,858,841	3,637
Federal sources	351,055	389,199	394,846	5,647
Other transactions:				
Transfers from other districts	4,543	4,543	5,316	773
Sale of school property	270	270	270	-
Refund of prior years expenditures	7,214	7,214	13,187	5,973
Insurance reimbursement	3,050	3,050	3,050	-
Miscellaneous	11,371	22,924	19,577	(3,347)
<b>TOTAL REVENUES</b>	<u>8,478,775</u>	<u>8,892,426</u>	<u>8,886,802</u>	<u>(5,624)</u>
<b>EXPENDITURES</b>				
Instruction	4,680,974	4,572,571	4,554,427	18,144
Supporting services	4,241,696	3,404,410	3,305,781	98,629
Community services	40,068	40,068	39,493	575
<b>TOTAL EXPENDITURES</b>	<u>8,962,738</u>	<u>8,017,048</u>	<u>7,899,701</u>	<u>117,347</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(483,963)</u>	<u>875,378</u>	<u>987,101</u>	<u>111,723</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Payments on loans		(263,595)	(311,254)	(47,659)
Site services		(12,000)	(12,005)	(5)
Payments to other schools		(206,930)	(206,930)	-
Fund transfers in	9,576	9,576	5,000	(4,576)
Fund transfers out		(138,500)	(138,500)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>9,576</u>	<u>(611,449)</u>	<u>(663,689)</u>	<u>(52,240)</u>
<b>EXCESS (DEFICIENCY) OR REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)</b>	<u><u>\$ (474,387)</u></u>	<u><u>\$ 263,929</u></u>	<u>323,412</u>	<u><u>\$ 59,483</u></u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			1,667,544	
<b>FUND BALANCE - END OF YEAR</b>			<u><u>\$ 1,990,956</u></u>	

## **ADDITIONAL INFORMATION**

**BROWN CITY COMMUNITY SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
June 30, 2006

	<b>GOVERNMENTAL FUND TYPES</b>		<b>TOTAL</b>
	<b>DURANT DEBT</b>	<b>SPECIAL REVENUE</b>	<b>2006</b>
<b><u>ASSETS</u></b>			
Cash		\$ 69,498	\$ 69,498
Due from other governmental units		3,364	3,364
Inventory		4,739	4,739
<b>TOTAL ASSETS</b>	<b>-</b>	<b>\$ 77,601</b>	<b>\$ 77,601</b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts payable		\$ 2,470	\$ 2,470
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>2,470</b>	<b>2,470</b>
<b><u>FUND BALANCE</u></b>			
Fund balances:			
Reserved for debt service			
Unreserved:			
Undesignated	-	75,131	75,131
<b>TOTAL FUND BALANCE</b>	<b>-</b>	<b>75,131</b>	<b>75,131</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>-</b>	<b>\$ 77,601</b>	<b>\$ 77,601</b>

**BROWN CITY COMMUNITY SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>GOVERNMENTAL FUND TYPES</b>		<b>TOTAL</b>
	<b>DURANT DEBT</b>	<b>SPECIAL REVENUE</b>	<b>2006</b>
REVENUES			
Local sources	\$ -	\$ 296,937	\$ 296,937
State sources	28,982	28,406	57,388
Federal sources	-	238,323	238,323
TOTAL REVENUES	<u>28,982</u>	<u>563,666</u>	<u>592,648</u>
EXPENDITURES			
Food services		474,753	474,753
Athletic services		205,948	205,948
Principal payments	20,028		20,028
Interest and fiscal charges	8,954	-	8,954
TOTAL EXPENDITURES	<u>28,982</u>	<u>680,701</u>	<u>709,683</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(117,035)</u>	<u>(117,035)</u>
OTHER FINANCING SOURCES (USES)			
Fund transfers in		138,500	138,500
Fund transfers out		(5,000)	(5,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>133,500</u>	<u>133,500</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>-</u>	<u>16,465</u>	<u>16,465</u>
FUND BALANCE AT BEGINNING OF YEAR	-	58,666	58,666
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ 75,131</u>	<u>\$ 75,131</u>



**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>LOCAL SOURCES:</b>			
Property taxes	\$ 448,488	\$ 422,910	\$ (25,578)
Earnings on investments	70,998	73,639	2,641
Tuition and fees	26,998	30,356	3,358
Rental of facilities	200	299	99
Child care fees	35,760	34,181	(1,579)
Other local revenues	27,578	30,330	2,752
Total Local Sources	<u>610,023</u>	<u>591,715</u>	<u>(18,308)</u>
<b>STATE SOURCES:</b>			
Foundation grant	7,325,010	7,283,029	(41,981)
At Risk	204,598	203,627	(971)
Special education	140,934	191,202	50,268
Adult education	36,606	37,299	693
Non-plaintiff - Durant settlement	8,746	8,746	-
Renaissance zone	23,589	18,611	(4,978)
Other	115,721	116,327	606
Total State Sources	<u>7,855,204</u>	<u>7,858,841</u>	<u>3,637</u>
<b>FEDERAL SOURCES:</b>			
Title I	256,329	259,558	3,229
Title II	68,193	68,193	0
Title V	3,839	3,839	-
IDEA Project #060450/0506	46,000	46,000	-
Vocational education	606	521	(85)
Homeland security	6,348	8,850	2,502
Technology & other	7,885	7,885	0
Total Federal Sources	<u>389,199</u>	<u>394,846</u>	<u>5,647</u>
<b>OTHER TRANSACTIONS</b>			
Transfers from other districts:			
Special Education	4,445	5,218	773
Other	98	98	(0)
Sale of School property	270	270	-
Refund of prior years expenditures	7,214	13,187	5,973
Insurance reimbursement	3,050	3,050	-
Miscellaneous	22,924	19,577	(3,347)
Total Other transactions	<u>38,001</u>	<u>41,400</u>	<u>3,399</u>
<b>OTHER FINANCING SOURCES:</b>			
Transfers from other funds	9,576	5,000	(4,576)
Total Other Financing Sources	<u>9,576</u>	<u>5,000</u>	<u>(4,576)</u>
<b>TOTAL REVENUES</b>	<u><u>\$ 8,902,002</u></u>	<u><u>\$ 8,891,802</u></u>	<u><u>\$ (10,200)</u></u>

**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
Elementary			
Professional salaries	\$ 1,086,413	\$ 1,076,574	\$ 9,839
Nonprofessional salaries	34,775	28,352	6,423
Insurance benefits	311,007	308,148	2,859
FICA	314,935	315,648	(713)
Purchased services	32,972	33,032	(61)
Supplies	29,807	29,760	47
Miscellaneous	2,986	2,985	1
Total Elementary	<u>1,812,895</u>	<u>1,794,499</u>	<u>18,396</u>
High School			
Professional salaries	1,064,418	1,067,610	(3,192)
Nonprofessional salaries	28,375	27,446	929
Insurance benefits	286,865	286,779	86
FICA	278,950	275,466	3,484
Purchased services	28,421	28,372	49
Supplies	28,692	27,307	1,385
Miscellaneous	3,340	3,323	17
Total High School	<u>1,719,061</u>	<u>1,716,303</u>	<u>2,758</u>
Preschool			
Professional salaries	27,303	27,303	0
Nonprofessional salaries	6,548	6,768	(220)
Insurance benefits	14,480	14,469	11
FICA	8,094	8,147	(53)
Purchased services	6,100	5,747	353
Supplies	16,154	15,955	199
Capital outlay	4,799	4,648	151
Miscellaneous	158	158	-
Total Preschool	<u>83,636</u>	<u>83,195</u>	<u>441</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>INSTRUCTION:</b>			
<b>ADDED NEEDS:</b>			
Special Education			
Professional salaries	\$ 207,417	\$ 207,442	\$ (25)
Nonprofessional salaries	60,147	56,493	3,654
Insurance benefits	74,785	73,672	1,113
FICA	64,217	62,814	1,403
Purchased services	204	204	0
Supplies	1,935	1,698	237
Capital outlay	143	143	0
Miscellaneous	2,712	2,712	-
Total Special Education	<u>411,561</u>	<u>405,178</u>	<u>6,383</u>
Compensatory Education			
Professional salaries	148,498	154,793	(6,295)
Nonprofessional salaries	122,582	123,001	(419)
Insurance benefits	22,466	23,739	(1,273)
FICA	63,063	66,114	(3,051)
Purchased services	38,270	38,270	-
Supplies	7,657	7,521	136
Capital outlay	2,693	2,693	0
Total Compensatory Education	<u>405,229</u>	<u>416,131</u>	<u>(10,902)</u>
Vocational Education			
Professional salaries	63,157	63,157	-
Nonprofessional salaries	8,930	8,598	332
Insurance benefits	19,313	18,983	330
FICA	17,300	17,035	265
Purchased services	2,200	2,199	1
Supplies	4,324	4,323	1
Miscellaneous	8	8	-
Total Vocational Education	<u>115,232</u>	<u>114,303</u>	<u>929</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
ADULT/CONTINUING EDUCATION:			
Vocational Education			
Professional salaries	\$ 11,583	\$ 11,583	\$ -
FICA	2,778	2,778	0
Purchased services	9,066	9,054	12
Supplies	932	805	127
Miscellaneous	598	598	-
Total Vocational Education	<u>24,957</u>	<u>24,818</u>	<u>139</u>
TOTAL INSTRUCTION	<u>4,572,571</u>	<u>4,554,427</u>	<u>278</u>
SUPPORT SERVICES			
PUPIL:			
Guidance			
Professional salaries	137,597	137,012	585
Nonprofessional salaries	9,960	8,892	1,068
Insurance benefits	7,074	6,891	183
FICA	37,200	36,651	549
Purchased services	20,100	18,980	1,120
Supplies	997	976	21
Miscellaneous	8	7	1
Total Guidance	<u>212,936</u>	<u>209,409</u>	<u>3,527</u>
Health			
Purchased services	270	270	-
Supplies	2,041	4,543	(2,502)
Total Health	<u>2,311</u>	<u>4,813</u>	<u>(2,502)</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>SUPPORT SERVICES</b>			
<b>PUPIL:</b>			
Psychological			
Purchased services	6,150	6,150	-
Total Psychological	<u>6,150</u>	<u>6,150</u>	<u>-</u>
Speech Pathology and Audiology			
Professional salaries	61,109	61,109	-
Insurance benefits	21,567	20,304	1,263
FICA	14,660	14,493	167
Supplies	1,025	24	1,001
Total Speech Pathology and Audiology	<u>98,361</u>	<u>95,930</u>	<u>2,431</u>
Other Pupil Services			
Nonprofessional salaries	32,440	32,242	198
Insurance benefits	324	324	-
FICA	7,782	7,702	80
Purchased services	160	121	39
Total Other Pupil Services	<u>40,706</u>	<u>40,389</u>	<u>317</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>SUPPORT SERVICES</b>			
<b>INSTRUCTIONAL STAFF:</b>			
Improvement of Instruction			
Professional salaries	\$ 9,000	\$ 9,000	-
Nonprofessional salaries	14,641	14,612	\$ 29
Insurance benefits	120	120	-
FICA	5,672	5,609	63
Purchased services	12,534	12,528	6
Supplies	3,000	2,884	116
Total Improvement of Instruction	<u>44,967</u>	<u>44,753</u>	<u>214</u>
Library			
Professional salaries	66,571	66,571	-
Nonprofessional salaries	22,800	22,710	90
Insurance benefits	25,845	24,746	1,099
FICA	21,440	21,239	201
Purchased services	528	528	-
Supplies	13,402	13,400	2
Capital outlay	741	741	-
Total Library	<u>151,326</u>	<u>149,935</u>	<u>1,391</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>SUPPORT SERVICES</b>			
<b>INSTRUCTIONAL STAFF:</b>			
Computer Assisted Instruction			
Professional salaries	\$ 44,776	\$ 37,759	\$ 7,017
Nonprofessional salaries	15,910	14,339	1,571
Insurance benefits	22,558	20,966	1,592
FICA	16,559	14,966	1,593
Purchased services	28,945	28,945	-
Supplies	782	326	456
Total Computer Assisted Instruction	<u>129,530</u>	<u>117,301</u>	<u>12,229</u>
<b>GENERAL ADMINISTRATION:</b>			
Board of Education			
Professional salaries	5,500	4,270	1,230
Purchased services	32,635	22,351	10,284
Supplies	500	82	418
Miscellaneous	4,097	4,065	32
Total Board of Education	<u>42,732</u>	<u>30,768</u>	<u>11,964</u>
Executive Administration			
Professional salaries	98,430	98,430	-
Nonprofessional salaries	37,862	37,973	(111)
Insurance benefits	42,539	40,514	2,025
FICA	112,535	113,871	(1,336)
Purchased services	18,888	18,625	263
Supplies	6,000	5,705	295
Capital outlay	500	301	199
Miscellaneous	1,863	1,854	9
Total Executive Administration	<u>318,617</u>	<u>317,273</u>	<u>1,344</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>SUPPORT SERVICES</b>			
<b>GENERAL ADMINISTRATION:</b>			
Grant Writer			
Nonprofessional salaries	\$ 2,000	\$ 2,000	-
FICA	480	480	-
Total Grant Writer	<u>2,480</u>	<u>2,480</u>	<u>-</u>
<b>SCHOOL ADMINISTRATION:</b>			
Office of the Principal			
Professional salaries	215,770	206,089	\$ 9,681
Nonprofessional salaries	96,796	101,856	(5,060)
Insurance benefits	47,088	44,845	2,243
FICA	95,595	91,187	4,408
Purchased services	3,000	2,987	13
Supplies	17,900	15,733	2,167
Miscellaneous	650	569	81
Total Office of the Principal	<u>476,799</u>	<u>463,266</u>	<u>13,533</u>
<b>BUSINESS:</b>			
Fiscal Services			
Nonprofessional salaries	84,898	83,239	1,659
Insurance benefits	24,558	23,988	570
FICA	30,997	30,341	656
Purchased services	132	132	-
Supplies	1,900	1,872	28
Miscellaneous	240	240	-
Total Fiscal Services	<u>142,725</u>	<u>139,812</u>	<u>2,913</u>



**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>SUPPORT SERVICES</b>			
<b>BUSINESS:</b>			
Other Business Services			
Purchased services	\$ 7,731	\$ 7,731	-
Miscellaneous	5,725	4,581	\$ 1,144
Interest	62,821	63,121	(300)
Total Other Business Services	<u>76,277</u>	<u>75,433</u>	<u>844</u>
<b>OPERATION/MAINTENANCE</b>			
Professional salaries	72,831	72,831	-
Nonprofessional salaries	283,247	260,853	22,394
Insurance benefits	32,475	30,802	1,673
FICA	94,231	87,429	6,802
Purchased services	162,477	158,638	3,839
Supplies	309,251	307,293	1,958
Capital outlay	10,542	10,075	467
<b>TOTAL OPERATION/MAINTENANCE</b>	<u>965,054</u>	<u>927,921</u>	<u>37,133</u>
<b>PUPIL TRANSPORTATION</b>			
Professional salaries	39,015	39,795	(780)
Nonprofessional salaries	174,900	170,777	4,123
Insurance benefits	36,544	35,621	923
FICA	51,107	51,707	(600)
Purchased services	50,725	49,929	796
Supplies	87,750	82,551	5,199
Capital outlay	52,700	52,700	-
Miscellaneous	2,512	2,314	198
<b>TOTAL PUPIL TRANSPORTATION</b>	<u>495,253</u>	<u>485,394</u>	<u>9,859</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
SUPPORT SERVICES TECHNOLOGY			
Nonprofessional salaries	\$ 89,873	\$ 88,866	\$ 1,007
Insurance benefits	20,056	20,044	12
FICA	31,167	30,728	439
Purchased services	19,051	19,473	(422)
Supplies	2,000	366	1,634
Capital outlay	36,038	35,277	761
TOTAL SUPPORT SERVICES TECHNOLOGY	<u>198,185</u>	<u>194,754</u>	<u>3,431</u>
TOTAL SUPPORT SERVICES	<u>3,404,410</u>	<u>3,305,781</u>	<u>98,629</u>
COMMUNITY SERVICES:			
Custody and Care of Children			
Nonprofessional salaries	28,610	28,078	532
FICA	6,869	6,826	43
Purchased services	1,000	1,000	-
Supplies	261	261	-
Miscellaneous	387	387	-
Total Custody and Care of Children	<u>37,127</u>	<u>36,552</u>	<u>575</u>
Other Community Services			
Purchased services	1,100	1,100	-
Supplies	1,841	1,841	(0)
Total Other Community Services	<u>2,941</u>	<u>2,941</u>	<u>(0)</u>
TOTAL COMMUNITY SERVICES	<u>40,068</u>	<u>39,493</u>	<u>1,150</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
OTHER FINANCING USES:			
Transfers to other funds	\$ 138,500	\$ 138,500	\$ -
Site services	12,000	12,005	(5)
Payments to other schools	206,930	206,930	-
Payments on Loans	263,595	311,254	(47,659)
TOTAL OTHER FINANCING USES	<u>621,025</u>	<u>668,689</u>	<u>(47,664)</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u><u>\$ 8,638,073</u></u>	<u><u>\$ 8,568,390</u></u>	<u><u>\$ 52,393</u></u>

**BROWN CITY COMMUNITY SCHOOLS**  
**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUND**  
June 30, 2006

	<u><b>FOOD SERVICE</b></u>	<u><b>ATHLETICS</b></u>	<u><b>TOTAL 2006</b></u>
<b><u>ASSETS</u></b>			
CURRENT ASSETS:			
Cash	\$ 61,611	\$ 7,887	\$ 69,498
Due from other governmental units	3,364	-	3,364
Inventory	4,739	-	4,739
<b><i>TOTAL ASSETS</i></b>	<u><u>\$ 69,714</u></u>	<u><u>\$ 7,887</u></u>	<u><u>\$ 77,601</u></u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>			
LIABILITIES:			
Accounts payable	\$ 2,420	\$ 50	\$ 2,470
<b><i>TOTAL LIABILITIES</i></b>	<u><u>2,420</u></u>	<u><u>50</u></u>	<u><u>2,470</u></u>
FUND BALANCE:			
Unreserved			
Undesignated	67,294	7,837	75,131
<b><i>TOTAL FUND BALANCE</i></b>	<u><u>67,294</u></u>	<u><u>7,837</u></u>	<u><u>75,131</u></u>
<b><i>TOTAL LIABILITIES &amp; FUND BALANCE</i></b>	<u><u>\$ 69,714</u></u>	<u><u>\$ 7,887</u></u>	<u><u>\$ 77,601</u></u>

**BROWN CITY COMMUNITY SCHOOLS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**SPECIAL REVENUE FUND**  
June 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>TOTAL 2006</u>
REVENUES:			
Local sources	\$ 225,580	\$ 71,357	\$ 296,937
State sources	28,406		28,406
Federal sources	238,323		238,323
TOTAL REVENUES	<u>492,309</u>	<u>71,357</u>	<u>563,666</u>
EXPENDITURES:			
Professional Salaries	8,229		8,229
Nonprofessional salaries	122,010		122,010
Insurance benefits	10,212		10,212
FICA	29,951		29,951
Commodities	278,733		278,733
Capital outlay	12,646		12,646
Athletic activities		205,948	205,948
Travel & workshops	9,956		9,956
Other expenses	3,016		3,016
TOTAL EXPENDITURES	<u>474,753</u>	<u>205,948</u>	<u>680,701</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>17,556</u>	<u>(134,591)</u>	<u>(117,035)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in		138,500	138,500
Fund transfers out	(5,000)		(5,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,000)</u>	<u>138,500</u>	<u>133,500</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>12,556</u>	<u>3,909</u>	<u>16,465</u>
FUND BALANCE AT BEGINNING OF YEAR	54,738	3,928	58,666
FUND BALANCE AT END OF YEAR	<u>\$ 67,294</u>	<u>\$ 7,837</u>	<u>\$ 75,131</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**BALANCE SHEET**  
**2005/2001 DEBT SERVICE FUND**  
**June 30, 2006**

	<u><b>2006</b></u>
<u><b>ASSETS</b></u>	
Cash	\$ 304,426
<b>TOTAL ASSETS</b>	<u><u><b>\$ 304,426</b></u></u>
 <u><b>LIABILITIES AND FUND BALANCE</b></u>	
 FUND BALANCE:	
Reserved for debt service	\$ 304,426
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<u><u><b>\$ 304,426</b></u></u>

**BROWN CITY COMMUNITY SCHOOLS**  
**DEBT SERVICE FUNDS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>2005/2001 ISSUE</u>	<u>DURANT DEBT</u>	<u>TOTAL 2006</u>
REVENUES			
Local Sources:			
Property taxes	\$ 746,144		\$ 746,144
Earnings on investments	11,571		11,571
Miscellaneous income	2,724		2,724
Total Local Sources	<u>760,439</u>	<u>-</u>	<u>760,439</u>
State Sources		\$ 28,982	28,982
TOTAL REVENUES	<u>760,439</u>	<u>28,982</u>	<u>789,421</u>
EXPENDITURES			
Debt Service:			
Principal repayment	205,000	20,028	225,028
Interest and other fiscal charges	617,836	8,954	626,790
TOTAL EXPENDITURES	<u>822,836</u>	<u>28,982</u>	<u>851,818</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(62,397)</u>	<u>-</u>	<u>(62,397)</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from bond refunding	8,465,001		8,465,001
Payment to bond escrow agent	(7,890,000)		(7,890,000)
Payments for premiums and discounts	2,523		2,523
Deferred amount	(461,999)		(461,999)
Bond Issuance costs	(74,331)		(74,331)
TOTAL OTHER FINANCING SOURCES (USES)	<u>41,194</u>	<u>-</u>	<u>41,194</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>(21,203)</u>	<u>-</u>	<u>(21,203)</u>
FUND BALANCES:			
Beginning of Year	325,629		325,629
End of Year	<u>\$ 304,426</u>	<u>-</u>	<u>\$ 304,426</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**AGENCY FUND**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN LIABILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BALANCE AT</u> <u>6/30/2005</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2006</u>
Art	\$ 800	\$ 18	\$ 218	\$ 600
Athletic CC	117	939	841	215
Athletic Baseball	380	2,676	3,055	1
Athletic Baseball Facility Account	-	3,165	692	2,473
Athletic Boys Varsity Basketball	2,165	10,076	11,229	1,012
Athletic Elementary Girls Basketball	1,117	4,866	6,025	(42)
Athletic Football	3,161	972	2,528	1,605
Athletic Girls Varsity Track	677	2,244	2,386	535
Athletic Golf	(75)	1,815	885	855
Athletic Sideline Cheer	771	13,771	13,022	1,520
Athletic Varsity Softball	4,356	4,487	7,111	1,732
Athletic Varsity Volleyball	313	3,376	2,779	910
Athletic Wrestling	171	916	1,146	(59)
Autoshop Pop Machine	1,701	4,041	4,042	1,700
Band	-	1,262	1,141	121
Bowling	-	600	600	-
Bus Garage	345	18	-	363
Chorus	(21)	1,293	1,250	22
Class of 1974 - 2002	1,702	-	-	1,702
Class of 2004	246	-	-	246
Class of 2005	2,918	-	-	2,918
Class of 2006	1,845	5,167	6,040	972
Class of 2007	4,702	10,993	13,836	1,859
Class of 2008	4,494	5,009	4,191	5,312
Class of 2009	3,031	6,535	4,543	5,023
Class of 2010	1,572	3,431	2,521	2,482
Class of 2011	303	4,710	3,380	1,633
Computer Club	125	-	-	125
Croswell Learning Center	48	19	-	67
D. Muxlow - Principal	5,487	40,062	43,509	2,040
D. Muxlow Pop Machine	677	1,526	1,749	454
Drama Club	1,646	-	-	1,646
Elementary Gift & Flower Fund	-	819	415	404
Elementary Knights of Columbus	67	-	-	67
Equestrian Team	66	583	245	404
High School Gifts & Flowers	441	361	727	75
High School Knights of Columbus	518	-	-	518
High School Quiz Bowl	143	-	50	93
High School Student Council	864	2,047	1,361	1550



**BROWN CITY COMMUNITY SCHOOLS**  
**AGENCY FUND**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN LIABILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BALANCE AT</u> <u>6/30/2005</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2006</u>
S. Roper Candy	\$ 1,771	\$ 9,006	\$ 8,779	\$ 1,998
S. Roper Internal	-	4,457	3,074	1,383
Library Fines	190	112	225	77
Mrs. Hensels Class	45	-	-	45
National Honor Society	33	7,698	7,031	700
Playground Equipment	7,726	-	-	7,726
Project Graduation	796	-	-	796
PTO	2,187	28,337	25,602	4,922
SADD	1,041	1,953	2,277	717
Soccer	1,155	-	-	1,155
Spanish Class	13	-	-	13
Steigerwald - Principal	16,407	15,883	20,704	11,586
Yearbook	1,724	6,854	6,909	1,669
<b>TOTAL AGENCY FUND</b>	<u><u>\$ 79,961</u></u>	<u><u>\$ 212,097</u></u>	<u><u>\$ 216,118</u></u>	<u><u>\$ 75,940</u></u>

**BROWN CITY COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT**  
June 30, 2006

Date of Issue: July 1, 1998

Original Amount of Issue: \$500,000

Purpose of Issue: Limited tax general obligation bonds - Energy Conservation

Interest Rate	Fiscal Year	Annual Maturity June 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			June 1	December 1	
4.75%	2007	\$ 75,000	\$ 3,701	\$ 3,701	\$ 82,402
4.80%	2008	80,000	1,920	1,920	83,840
		<u>\$ 155,000</u>	<u>\$ 5,621</u>	<u>\$ 5,621</u>	<u>\$ 166,242</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT**  
June 30, 2006

Date of Issue: November 24, 1999

Original Amount of Issue: \$250,000

Purpose of Issue: Limited tax general obligation bonds

<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Annual Maturity May 1</u>	<u>Semi-Annual Interest Payments</u>		<u>Total Fiscal Year Requirements</u>
			<u>May 1</u>	<u>November 1</u>	
5.00%	2007	\$ 30,000	\$ 2,250	\$ 2,250	\$ 34,500
5.00%	2008	30,000	1,500	1,500	33,000
5.00%	2009	30,000	750	750	31,500
		<u>\$ 90,000</u>	<u>\$ 4,500</u>	<u>\$ 4,500</u>	<u>\$ 99,000</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT**  
June 30, 2006

Date of Issue: March 14, 2001

Original Amount of Issue: \$ 1,168,097

Purpose of Issue: Limited tax general obligation bonds (Qualified Zone Academy Bonds)

<u>Fiscal Year</u>	<u>Annual Payment March 14</u>	<u>Total Fiscal Year Requirements</u>
2007	\$ 145,000	\$ 145,000
2008	145,000	145,000
2009	145,000	145,000
2010	145,000	145,000
2011	145,000	145,000
2012	145,000	145,000
2013	145,000	145,000
	<u>\$ 1,015,000</u>	<u>\$ 1,015,000</u>

**BROWN CITY COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT**  
June 30, 2006

Date of Issue: October 29, 2001

Original Amount of Issue: \$ 12,900,000

Purpose of Issue Erecting, furnishing and equipping additions to the High School and the existing Elementary School; Partially remodeling, re-furnishing and re-equipping the High School and the existing Elementary School; Acquiring and installing new technology; Improving outdoor physical education facilities; Developing and improving sites.

Interest Rate	Fiscal Year	Annual Maturity May 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			May 1	November 1	
3.40%	2007	\$ 155,000	\$ 113,785	\$ 113,785	\$ 382,570
3.60%	2008	185,000	111,150	111,150	407,300
3.75%	2009	220,000	107,820	107,820	435,640
3.85%	2010	245,000	103,695	103,695	452,390
3.95%	2011	285,000	98,979	98,979	482,958
5.25%	2012	325,000	93,350	93,350	511,700
5.25%	2013	355,000	84,819	84,818	524,637
5.50%	2014	-	75,500	75,500	151,000
5.50%	2015	-	75,500	75,500	151,000
5.50%	2016	-	75,500	75,500	151,000
5.50%	2017	-	75,500	75,500	151,000
5.50%	2018	-	75,500	75,500	151,000
5.50%	2019	-	75,500	75,500	151,000
5.00%	2020	-	75,500	75,500	151,000
5.00%	2021	-	75,500	75,500	151,000
5.00%	2022	-	75,500	75,500	151,000
5.00%	2023	-	75,500	75,500	151,000
5.00%	2024	-	75,500	75,500	151,000
5.00%	2025	-	75,500	75,500	151,000
5.00%	2026	-	75,500	75,500	151,000
5.00%	2027	460,000	75,500	75,500	611,000
5.00%	2028	640,000	64,000	64,000	768,000
5.00%	2029	640,000	48,000	48,000	736,000
5.00%	2030	640,000	32,000	32,000	704,000
5.00%	2031	640,000	16,000	16,000	672,000
		<u>\$ 4,790,000</u>	<u>\$ 1,930,598</u>	<u>\$ 1,930,597</u>	<u>\$ 8,651,195</u>

Bonds due to mature in the years 2014-2026 were refunded December 6, 2005.

**BROWN CITY COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT**  
June 30, 2006

Date of Issue: November 24, 1999

Original Amount of Issue: \$ 87,456

Purpose of Issue: Durant issue; School Improvements

<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Annual Maturity May 15</u>	<u>Annual Interest Payments May 15</u>	<u>Total Fiscal Year Requirements</u>
4.76%	2007	\$ 4,434	\$ 1,707	\$ 6,141
4.76%	2008	4,646	1,496	6,142
4.76%	2009	4,867	1,274	6,141
4.76%	2010	5,099	1,043	6,142
4.76%	2011	5,342	800	6,142
4.76%	2012	5,596	546	6,142
4.76%	2013	5,861	278	6,139
		<u>\$ 35,845</u>	<u>\$ 7,144</u>	<u>\$ 42,989</u>

This bond, including interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, Hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository. A revised payment schedule was issued on March 24, 2003.

**BROWN CITY COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT- 2005 REFUNDING**  
June 30, 2006

Refunding serial bonds in the amount of \$8,465,000 were issued December 6, 2005 to refinance 2001 serial bonds (due to mature in the years 2014-2026).

Interest Rate	Fiscal Year	Annual Maturity May 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			May 1	November 1	
3.10%	2007	\$ 45,000	\$ 171,523	\$ 171,523	\$ 388,046
3.13%	2008	45,000	170,826	170,826	386,652
3.25%	2009	40,000	170,123	170,123	380,246
3.38%	2010	50,000	169,473	169,473	388,946
3.38%	2011	45,000	168,629	168,629	382,258
3.50%	2012	45,000	167,869	167,869	380,738
3.63%	2013	60,000	167,082	167,082	394,164
5.00%	2014	465,000	165,994	165,994	796,988
5.00%	2015	515,000	154,369	154,369	823,738
3.75%	2016	565,000	141,494	141,494	847,988
3.80%	2017	620,000	130,901	130,901	881,802
3.85%	2018	665,000	119,121	119,121	903,242
3.90%	2019	660,000	106,319	106,319	872,638
4.00%	2020	650,000	93,449	93,449	836,898
4.00%	2021	645,000	80,449	80,449	805,898
4.00%	2022	635,000	67,549	67,549	770,098
4.10%	2023	630,000	54,849	54,849	739,698
4.13%	2024	625,000	41,934	41,934	708,868
4.13%	2025	620,000	29,044	29,044	678,088
4.25%	2026	615,000	16,257	16,257	647,514
4.25%	2027	150,000	3,188	3,188	156,376
		<u>\$ 8,390,000</u>	<u>\$ 2,390,442</u>	<u>\$ 2,390,442</u>	<u>\$ 13,170,884</u>

**BROWN CITY COMMUNITY SCHOOL DISTRICT**

**ADDITIONAL REPORTS REQUIRED  
BY OMB CIRCULAR A-133**

**YEAR ENDED JUNE 30, 2006**



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# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

August 18, 2006

Board of Education  
Brown City Community Schools  
Brown City, Michigan 48416

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Brown City Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Brown City Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Brown City Community Schools in a separate letter dated August 18, 2006.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

August 18, 2006

To the Board of Education  
Brown City Community Schools  
Brown City, MI 48416

**COMPLIANCE**

We have audited the compliance of Brown City Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Brown City Community Schools' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program is the responsibility of Brown City Community Schools' management. Our responsibility is to express an opinion on Brown City Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brown City Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Brown City Community Schools' compliance with those requirements.

In our opinion, Brown City Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2006.

**INTERNAL CONTROL OVER COMPLIANCE**

The management of Brown City Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Brown City Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education  
Brown City Community Schools  
August 18, 2006

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Brown City Community Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the board of education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS**

**BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2006
U.S. DEPARTMENT OF EDUCATION:								
Passed through Michigan Dept. of Education:								
ECIA Title I - regular	84.010	515300405	\$ 228,768	\$ 37,387	\$ 221,542	\$ 44,613	\$ 7,226	-
ECIA Title I - C/O	84.010	615300506	258,356			231,222	252,332	\$ 21,110
			487,124	37,387	221,542	275,835	259,558	21,110
State plan self review	84.027	060440SPSR	3,760			3,065	3,065	-
Title V	84.298	602500506	3,839			3,839	3,839	-
Technology Literacy Challenge	84.318	642900506	4,820			4,820	4,820	-
Title IIA - Class Size Reduction	84.367	505200405	64,207			3,924	3,924	-
		605200506	64,269			56,359	64,269	7,910
			128,476			60,283	68,193	7,910
Total Passed Through Michigan Dept. of Education			628,019	37,387	221,542	347,842	339,475	29,020

**BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2006
<b>TRANSFERS FROM OTHER GOVERNMENTAL UNITS</b>								
Passed Through the Sanilac Intermediate School District:								
Tech Prep	84.243A		\$ 521			\$ 521	\$ 521	-
P.L. 94-142 Flow-through (IDEA)	84.027	050450-0405	46,000			46,000	46,000	-
			46,521	-	-	46,521	46,521	-
Passed Through Sanilac County Emergency Management								
Homeland Security	97.004		4,974			4,974	4,974	-
Passed Through State Police								
Homeland Security	97.004		2,502			2,502	2,502	-
Homeland Security			1,374			1,374	1,374	-
			3,876	-	-	3,876	3,876	-
<b>TOTAL TRANSFERS FROM OTHER GOVERNMENTAL UNITS</b>			<b>55,371</b>	<b>-</b>	<b>-</b>	<b>55,371</b>	<b>55,371</b>	<b>-</b>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>								
Passed through Michigan Dept. of Education:								
National School Lunch	10.555		153,252			153,252	153,252	-
Fruit and Vegetable Pilot Program	10.555		32,720	\$ 9,075	\$ 19,570	32,720	23,645	-
National School Lunch Breakfast	10.553		39,202			39,202	39,202	-
Food Distribution Entitlement	10.550		21,834			21,834	21,834	-
Bonus Commodities	10.565		390			390	390	-
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>247,398</b>	<b>9,075</b>	<b>19,570</b>	<b>247,398</b>	<b>238,323</b>	<b>-</b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b>\$ 930,788</b>	<b>\$ 46,462</b>	<b>\$ 241,112</b>	<b>\$ 650,611</b>	<b>\$ 633,169</b>	<b>\$ 29,020</b>

**BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Brown City Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* and reconciles with the amounts presented in the basic financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Child Nutrition Cluster, CFDA #10.553 and 10.555, were audited as a major program representing 34.13% of federal expenditures.
2. The threshold for distinguishing Type A and Type B programs was \$300,000.
3. Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.
4. Management has utilized the Grant Section Auditor's Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. The amounts reported on the Receipt Entitlement Balance Report agree with this schedule for USDA donated food commodities.

**NOTE 3 – SUMMARY OF FEDERAL EXPENDITURES**

Federal expenditures are reported as revenue in the following funds in the basic financial statements:

General Fund	\$394,846
Special Revenue Fund	<u>238,323</u>
Subtotal	<u><b>\$633,169</b></u>

**BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**Section I – Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

**CFDA Number(s)**  
10.553 & 10.555

**Name of Federal Program or Cluster**  
Child Nutrition Cluster

Dollar threshold used to distinguish between type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None



**BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no prior year audit findings for the year ended June 30, 2005

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August 18, 2006

To the Board of Education  
Brown City Community School District  
Brown City, Michigan

In planning and performing our audit of the financial statements of Brown City Community School District for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 18, 2006, on the financial statements of Brown City Community School District.

## **New Rules For §403(B) Plans**

Final regulations have still not been finalized.

## **Budget Enforcement by the Michigan Department of Education**

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letter to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act, we believe the district's current budget procedures are adequate.

#### **Cash Management – Federal Awards**

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

#### **New Auditing Standards**

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

To the Board of Education  
August 18, 2006  
Brown City Community Schools  
Page three

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies, "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exist.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various schools district personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Brown City Community School District, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**